Northern Solar (NORTHERN MK)

A Rising Star

BUY (Maintained)	
Share Price	RM0.62
Target Price	RM1.00
Upside	61.3%

Highlights

- We expect Northern Solar to double its net profit by FY28, driven by healthy orderbook wins of RM204m across utility-scale solar farms, and the C&I and residential segments. The group's maiden utility-scale contract involves the construction of a 30MW LSS5 project in Perak valued at RM120m.
- The stock offers a robust three-year earnings CAGR of 51% (FY26-29), making it the fastest growing company within our RE universe. The group is looking to transfer to the Main Board by end-26.
- Maintain BUY with a target price of RM1.00, based on 11x FY28F EPS (-1SD from mean PE).

Analysis

- **Maiden utility-scale project to spur FY27-28 earnings.** Northern Solar's maiden utility-scale ECC contract involves the construction of a 30MWac LSS5 project in Perak valued at RM120m, with commissioning slated for end-27. Importantly, the group will be absolved from any risk arising from solar photovoltaic (PV) prices and procurement, as the solar PV will be sourced by the asset owner. We project approximately 60% of the RM120m contract value will be recognised in FY27 with net margin estimated at 7-9%. This project is expected to underpin earnings visibility over FY27-28 for the group.
- **Northern Solar commands a record orderbook of RM204m,** primarily anchored by the abovementioned LSS5 engineering, construction and commissioning (ECC) contract (58%), with more contributions from rooftop solar photovoltaic (PV) projects across the commercial and industrial (C&I) (37%) and residential (5%) segments. Moving ahead, the company aims to achieve a steady top-line run rate of: a) RM100m p.a. for C&I solar installation; b) RM60-80m p.a. for the residential segment; and c) 5-10% annual revenue mix from its standalone and bundled battery energy storage system (BESS) projects.
- **Building a recurring earnings base.** As of 4QFY26, the company operates a 15MW portfolio of rooftop solar assets, which contribute approximately RM5m (< 5%) in annual revenue. These assets deliver healthy margins (around 45% net margin) and are supported by long-term (15-21 years) power purchase agreements (PPA) and renewable energy certificate (REC) sales. These assets provide stable and recurring income streams over the long term.

Key Financials

Year to 31 Mar (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	84.9	113.0	224.3	402.3	600.4
EBITDA	18.7	24.0	34.1	56.5	78.0
Operating profit	17.8	22.4	32.7	54.5	75.4
Net profit (rep./act.)	11.4	15.3	22.5	37.7	52.3
Net profit (adj.)	13.9	15.3	22.5	37.7	52.3
EPS	3.5	3.9	5.7	9.5	13.2
PE	17.6	16.1	10.9	6.5	4.7
P/B	3.6	3.0	2.3	1.7	1.3
EV/EBITDA	10.9	8.8	6.2	3.3	2.2
Dividend yield	-	-	-	-	-
Net margin	16.4	13.5	10.0	9.4	8.7
Net debt/(cash) to equity	(62.0)	(42.2)	(39.8)	(46.2)	(41.4)
Interest cover	22.4	35.5	58.6	86.8	102.9
ROE	20.6	18.4	21.3	26.4	26.8
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Northern Solar, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	**Industrials**
Bloomberg ticker	NORTHERN MK
Shares issued (m)	395.6
Market cap (RMm)	245.3
Market cap (US$m)	60.3
3-mth avg daily t'over (US$m)	0.0

Price Performance (%)

52-week high/low				RM0.81/RM0.445
1mth	3mth	6mth	1yr	YTD
(11.4)	(0.8)	(2.4)	(6.1)	(2.4)

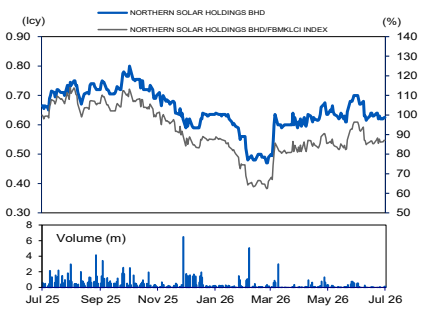
Major Shareholders

	%
Lew Shoong Kai	29.8
Chew Win Hoe	29.8
Norges Bank	2.5

Balance Sheet Metrics

FY27F NAV/Share (RM)	0.27
FY27F Net Debt/Share (RM)	0.11

Price Chart



Source: Bloomberg

Company Description

Northern Solar operates as an investment holding company. Through its subsidiaries, it specialises in the engineering, procurement, construction, and commissioning of solar PV systems and generation of renewable energy, as well as the operation and maintenance of solar PV equipment and systems. Northern Solar serves customers in Malaysia.

- **Expanding generation assets.** Moving forward, the company is actively pursuing capacity expansion, with a target to reach 35MW by end-FY27. This expanded asset base is projected to deliver full-year revenue and earnings contributions of RM13m and RM4m respectively from FY28 onwards. This accounts for 3% and 10% of FY28's revenue and net profit respectively.

Valuation/Recommendation

- **We reiterate our BUY rating with a PE-based target price of RM1.00.** Our target price is pegged to 11x FY28F EPS (-1SD from mean PE). Northern Solar is currently trading at an attractive valuation of 11x FY27F PE with a three-year earnings CAGR of 51% over FY26-29 and a blue-sky fair value of RM1.35 (mean PE). Key re-rating catalysts include: a) award of utility-scale EPCC contracts under CRESS and LSS6; b) venturing into utility-scale asset ownership under CRESS; and c) a transfer to Main Board listing by 4Q26; and d) reinstatement of Shariah status after the biannual Shariah compliance review in Nov 26.
- **The stock offers a strong three-year revenue and earnings CAGR of 68% and 51% respectively over FY26-29.** Key drivers are: a) elevated orderbook potential of small-to-medium sized C&I customers with the rollout of the solar accelerated transition action programme (Solar ATAP), b) potential large-scale self-consumption (SELCO) and utility-scale EPCC contract wins, and c) untapped bite-size standalone BESS solutions for existing customers.

Earnings Revision/Risk

- No changes to earnings forecasts.

Share Price Catalyst/Risk

- **SuRIA Home to boost residential solar rooftop adoption.** The Ministry of Energy Transition and Water Security (PETRA) has introduced a new domestic solar rooftop rebate programme called Sustainable Rebate & Incentive Assistance (SuRIA Home) effective 1 Jun 26. The SuRIA Home rebate will see eligible Solar ATAP participants benefitting from an attractive rebate of RM600 per 1kWac, subject to a maximum rebate of RM3,000 per household. The rebate programme will cease after 31 Dec 26 or once the allocated 250MWac quota is fully taken up.
- **A boon to Northern Solar's earnings.** We project residential solar rooftop adoption to pick up favourably in 2H26, underpinned by: a) higher electricity bills due to rising fuel prices under the Automatic Fuel Adjustment (AFA) scheme; b) a slightly more attractive payback period due to electricity costs staying higher for longer (4-5 years vs >5 years in 1H26); and c) introduction of SuRIA Home rebate scheme. This is anticipated to positively support the group's earnings, driven by the higher gross margins of c.35% generated from residential solar PV rooftop projects.

Environmental, Social, Governance (ESG) Update

Environmental

- Northern Solar installed solar PV systems countrywide with a cumulative capacity of 135MWp for its customers in FY25.

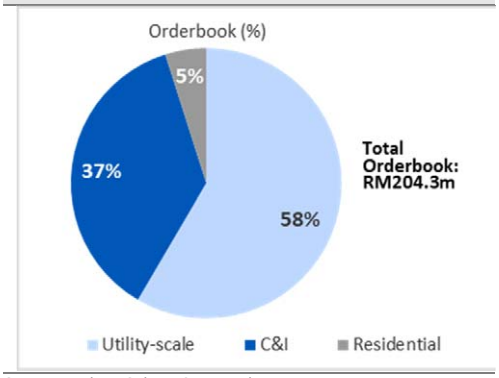
Social

- In FY25, the group allocated RM12,000 aimed at improving the welfare of surrounding communities through three beneficiary organisations.

Governance

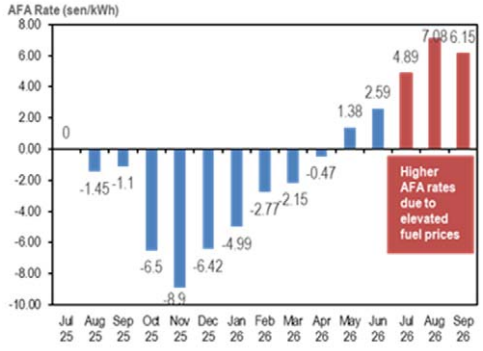
- The Board of Directors consists of four independent non-executive directors and two non-independent executive directors. Women comprise of 50% of the Board.

Current Orderbook



Source: Northern Solar, UOB Kay Hian

AFA Rate Forecast



Source: TNB, UOB Kay Hian

PE Band

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Net turnover	**113.0**	**224.3**	**402.3**	**600.4**
EBITDA	24.0	34.1	56.5	78.0
Deprec. & amort.	(1.6)	(1.4)	(2.0)	(2.6)
EBIT	22.4	32.7	54.5	75.4
Net interest income/(expense)	(0.6)	(0.6)	(0.6)	(0.7)
Pre-tax profit	**21.8**	**32.1**	**53.9**	**74.7**
Tax	(6.6)	(9.6)	(16.2)	(22.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	**15.3**	**22.5**	**37.7**	**52.3**
Net profit (adj.)	15.3	22.5	37.7	52.3

Balance Sheet

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Fixed assets	21.1	26.7	37.8	49.9
Other LT assets	2.6	2.6	2.6	2.6
Cash/ST investment	45.3	53.0	79.2	95.9
Other current assets	54.9	70.8	81.6	118.4
Total assets	**123.9**	**153.1**	**201.2**	**266.9**
ST debt	4.3	4.3	4.3	4.3
Other current liabilities	26.7	32.7	41.1	52.5
LT debt	6.0	6.8	8.8	10.8
Other LT liabilities	3.5	3.5	3.5	3.5
Shareholders' equity	82.9	105.4	143.1	195.4
Minority interest	0.5	0.5	0.4	0.4
Total liabilities & equity	**123.9**	**153.1**	**201.2**	**266.9**

Cash Flow

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Operating	**2.4**	**13.9**	**37.3**	**29.4**
Pre-tax profit	21.8	32.1	53.9	74.7
Tax	(5.4)	(9.6)	(16.2)	(22.4)
Deprec. & amort.	1.6	1.4	2.0	2.6
Associates	(0.0)	-	-	-
Working capital changes	(13.2)	(9.9)	(2.4)	(25.5)
Other operating cashflows	(2.3)	-	-	-
Investing	**(14.9)**	**(7.0)**	**(13.2)**	**(14.7)**
Capex (growth)	(9.9)	(7.0)	(13.2)	(14.7)
Proceeds from sale of assets	-	-	-	-
Others	(5.0)	-	-	-
Financing	**(0.9)**	**0.8**	**1.9**	**2.1**
Dividend payments	-	-	-	-
Issue of shares	-	-	-	-
Proceeds from borrowings	(0.4)	0.8	1.9	2.1
Others/interest paid	(0.5)	-	-	-
Net cash inflow (outflow)	**(13.4)**	**7.7**	**26.1**	**16.8**
Beginning cash & cash equivalent	**50.7**	**37.3**	**45.0**	**71.1**
Changes due to forex impact	(0.0)	-	-	-
Ending cash & cash equivalent	**37.3**	**45.0**	**71.1**	**87.9**

Key Metrics

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	21.2	15.2	14.1	13.0
Pre-tax margin	19.3	14.3	13.4	12.4
Net margin	13.5	10.0	9.4	8.7
ROA	12.3	14.7	18.8	19.6
ROE	18.4	21.3	26.4	26.8
Growth				
Turnover	33.1	98.5	79.4	49.2
EBITDA	28.0	42.0	66.0	38.0
Pre-tax profit	27.7	47.3	68.0	38.5
Net profit	34.0	47.0	68.0	38.5
Net profit (adj.)	9.6	47.2	68.0	38.5
EPS	9.6	47.2	68.0	38.5
Leverage				
Debt to total capital	0.1	0.1	0.1	0.1
Debt to equity	0.1	0.1	0.1	0.1
Net debt/(cash) to equity	(0.4)	(0.4)	(0.5)	(0.4)
Interest cover (x)	35.5	58.6	86.8	102.9

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